

OFFICIAL FILE

ILL. C. C. DOCKET NO. 01-0704
Mt. Carmel Exhibit No. 1.0
Witness fwg
Date 9/26/02 Reporter CB

Mt. Carmel Exhibit 1.0
ICC Docket No. 01-0704
Page 1

DIRECT TESTIMONY OF PHILIP BARNHARD

IN ILLINOIS COMMERCE COMMISSION

DOCKET NO. 01-0704

Q. Please state your name and business address.

A. My name is Philip Barnhard IV. My business address is 316 Market Street, P.O.
Box 220, Mt. Carmel, IL 62863.

Q. By whom are you employed and in what capacity?

A. I am the Chairman of the Board, President and Chief Executive Officer of Mt. Carmel
Public Utility Co. ("Mt. Carmel" or "Company").

Q. Please describe your qualifications.

A. I received a Bachelor of Arts in Chemistry from Harvard College in 1951. I received a
Master of Arts in Mathematics from the University of Delaware in 1959. I served as a naval
officer aboard the U.S.S. Ingersoll (DD652) from June 1951 to August 1953, leaving active
service as engineering officer. I joined the Explosives Department of E I DuPont de Nemours &
Co. Inc., working as a chemist at the Repauno Works in Gibbstown, NJ, initially in polymer
intermediates and heavy chemicals, later as a research chemist in commercial and military
explosives. In 1968, I started a three year stint in the Control Division, working at business and
financial analysis and on computer methods and systems. In January 1972, I joined Mt. Carmel
for two years as Vice-President and Treasurer; my duties included formulating the Uniform Fuel

24 Adjustment Charge and implementing a conversion from manual posting of bills by
25 Addressograph machinery to a computer. Later, I joined the Trojan - US Powder Divisions of
26 Commercial Solvents Corporation as Technical Director. Part of my duties included the
27 relocation of research facilities from Allentown, PA to Spanish Fork, UT. I left Trojan in late
28 1981 to work for Apache Powder Company in Benson, AZ as Technical Director of explosives
29 and nitric acid production. In July 1986 I joined Mt. Carmel as President. In 1989 I further
30 assumed the position of Chairman and CEO.

31 In my position I am responsible for general management of the Company. I have
32 implemented mechanization of office procedures where it has made sense, to reduce manual
33 transcription of routine business data, to reduce lag time in generating reports required by
34 authorities having jurisdiction, and to allow management to better perceive areas where corrective
35 action is required. I have coordinated implementation of the computer and billing systems for the
36 company. I have negotiated supply contracts for wholesale electric power and energy and for
37 natural gas supply.

38 Q. Have you previously testified before this Commission?

39 A. I have testified before the Illinois Commerce Commission on behalf of the Company,
40 particularly in areas of rates, FAC and PGA reconciliation, a major transmission line extension,
41 and in requesting authority to seek financing for expansion.

42 Q. What is the purpose of your testimony today?

43 A. By Order dated November 7, 2001, the Illinois Commerce Commission ordered Mt.

44 Carmel Public Utility Co. to present evidence showing the reconciliation of Purchased Gas
45 Adjustment revenues with the actual prudent cost of fuel and gas paid by the utility and authorized
46 to be collected under the utility's provisions of the Purchased Gas Adjustment. The period to be
47 covered is calendar year 2001.

48 These reconciliations have been made and my testimony is for the purpose of presenting
49 them and other exhibits.

50 Q. Please describe what Exhibit G-1 attached to this testimony is.

51 A. Exhibit G-1 is a copy of Company's Purchased Gas Adjustment Clause on file with and
52 approved by the Illinois Commerce Commission and in effect for the year 2001.

53 Q. Please describe what Exhibit G-2 attached to this testimony is.

54 A. Exhibit G-2 is a reconciliation of our receipts under the Purchased Gas Adjustment Clause
55 with the cost of fuel paid by us in 2001. We have been filing monthly reports with the Illinois
56 Commerce Commission under the Uniform Purchased Gas Adjustment Clause detailing our
57 receipts and purchases so that information is on file with the Commission.

58 Q. Please explain page 1 of Exhibit G-2 which addresses the Commodity Gas Charge.

59 A. The net of the reconciliation is an over recovery of \$242,304.02 in the Commodity Gas
60 Charge, with an unamortized balance of \$232,712.55 under recovered at December 31, 2000, plus
61 a Factor O of \$0.00 to be collected, and an as filed balance of \$0.00 at December 31, 2001. Line
62 11 of page 1 shows an under recovery balance at December 31, 2001, of \$283,172.40. This
63 minus the Factor A Adjustment shown on Line 12 result in a Requested Factor O of \$7,508.46 for

64 the reconciliation year 2001, Commodity Gas Charge.

65 Q. Please explain page 2 of Exhibit G-2 which addresses the Non-Commodity Gas Charge.

66 A. Page 2 shows an under recovery of \$27,811.59 in the Non-Commodity Gas Charge, with
67 an unamortized balance of \$0.00 at December 31, 2000, plus a Factor O of \$0.00, and an as filed
68 balance of \$0.00 at December 31, 2001. Line 11 of page 2 shows an under recovery balance at
69 December 31, 2001, of \$40,655.76. This minus the Factor A Adjustment shown on Line 12
70 result in a Requested Factor O of (\$3,001.05) for the reconciliation year 2001, Non-Commodity
71 Gas Charge.

72 Q. Please explain page 3 of Exhibit G-2 which addresses the Combined Gas Charge.

73 A. Page 3 shows a total over recovery of \$214,492.43 for the Combined Gas Charges, with
74 an unamortized balance of \$232,712.55 under recovered at December 31, 2000, plus a combined
75 Factor O of \$0.00, and with an as filed unamortized balance of \$0.00 at December 31, 2001.
76 Line 11 of page 3 shows an under recovery balance at December 31, 2001, of \$323,828.16. This
77 minus the Factor A Adjustment shown on Line 12 result in a Requested Factor O of \$4,507.41 for
78 the reconciliation year 2001, for the net of the Commodity and Non-Commodity Gas Charges
79 (Combined Gas Charges).

80 Q. Who did you purchase natural gas from for the year 2001?

81 A. Our natural gas was purchased from Woodward Energy Inc., with transportation provided
82 by the City of Grayville, Illinois and Texas Eastern Transmission Corp. Propane, of which none
83 was used in 2001, would have been purchased from the lowest price supplier at the time of order.

84 Q. Have you detailed the monthly PGA filings with your testimony as an exhibit?

85 A. No, we believe the above exhibits, together with our monthly filings with the Commission,
86 are sufficiently clear to eliminate the need of detailing them at this time.

87 Q. Have you attached to your testimony a copy of your independent auditor's report
88 addressing the PGA?

89 A. Yes, a copy of the independent auditor's report issued by Deloitte and Touche for the year
90 ended December 31, 2001, is attached to this testimony.

91 Q. Have you or will you give notice to your customers of the PGA filing?

92 A. By the time of the hearings on this matter public notice will have been published twice in
93 newspapers of general circulation in the cities and villages in which there are customers of the
94 company who are affected by the filing. The first publication will have been within ten (10) days
95 following the date of the filing and the second publication will have been made during the week
96 following. Notice will also have been posted in a prominent place in the office of the company.
97 Beginning with the date of this filing, copies of the same have been available to the public at the
98 company's business office.

99 Q. Do you believe that all fuels and gas were prudently purchased?

100 A. Yes, I do.

101 Q. Do you have anything further at this time?

102 A. No, this concludes my testimony.

103

G-1

Applies to Communities set forth in title sheet

RULES REGULATIONS AND CONDITIONS OF SERVICE

RIDER A

GAS CHARGE

Applicable to All Service Classifications

Each month the Company shall calculate a commodity and a non-commodity Gas Charge. Both Gas Charges shall be applied to each therm billed during the effective month to customers in all non-transportation service classifications. Only the non-commodity Gas Charge shall be applied to transportation customers, should such customers seek service under an applicable tariff.

On or before the twentieth day of each month, the Company shall file with the Commission a set of schedules specifying the Gas Charges to be effective for service billed in the effective month as provided in Section E. Such filing shall include a statement showing the determination of each such Gas Charge, such determination to be accompanied by data in explanation thereof.

The Company shall use a reconciliation year beginning on January 1 of each year and ending on December 31 of such year.

Section A Definitions

"base period" shall mean the effective month or the remaining months in the reconciliation year which includes the effective month;

"effective month" shall mean the month following the filing month, during which the Gas Charge will be in effect;

"filing month" shall mean the month in which a Gas Charge is determined by the Company and filed with the Commission;

"Gas used by the Company" shall include all gas used by the Company except gas utilized in the manufacture of gas through a reforming process, and shall include gas furnished to municipalities or other governmental authorities without reimbursement in compliance with franchise, ordinance or similar requirements;

"reconciliation year" shall mean the 12-month period defined in the Company's tariff for which actual gas costs and associated revenues are to be reconciled;

"system average cost of gas" shall mean the weighted average cost per therm of gas estimated to be purchased, withdrawn from storage, and manufactured during the base period or reconciliation year.

Issued December 12, 1995

Issued by Philip Barnhard IV

316 Market Street, Mt Carmel, IL 62863

Effective January 1, 1996

President

Applies to Communities set forth in title sheet

RULES REGULATIONS AND CONDITIONS OF SERVICE

RIDER A ctd GAS CHARGE

Section B Cost Basis

The Gas Charge shall represent the Company's estimate of recoverable gas costs (as prescribed in Section C) to be incurred during the base period, with an adjustment to such costs through use of Adjustment Factors (as prescribed in Sections D, E, and F). Any Gas Charge established to recover commodity gas costs (separately or in conjunction with non-commodity gas costs) shall use an estimate of the recoverable costs to be incurred during the effective month. Any Gas charge established to recover only non-commodity gas costs shall use an estimate of the recoverable costs to be incurred during the remaining months of the reconciliation year.

Section C Recoverable Gas Costs

a) Costs recoverable through the Gas Charge shall include the cost of the following:

(1) costs of natural gas and any solid, liquid, or gaseous hydrocarbons purchased for injection into the gas stream or purchased as feedstock or fuel for the manufacture of gas, or delivered to the Company under exchange agreements;

(2) costs for storage services purchased;

(3) transportation costs related to such natural gas and any solid, liquid or gaseous hydrocarbons and any storage services; and

(4) other out-of-pocket direct non-commodity costs related to hydrocarbon procurement, transportation, supply management, or price management, net of any associated proceeds, and Federal Energy Regulatory Commission-approved charges required by pipeline suppliers to access supplies or services described in subsections (a) (1) through (3) of this Section.

b) Determination of the Gas Charge(s) shall exclude the estimated cost of gas to be used by the Company, based on the system average cost of gas for the effective month.

c) the cost of gas estimated to be withdrawn from storage during the base period shall be included in the Gas Charge(s).

d) Recoverable gas costs shall be offset by the revenues derived from transactions at rates that are not subject to the Gas Charges(s) if any of the associated costs are recoverable gas costs as prescribed by subsection (a) of this Section. This Subsection shall not apply to transactions subject to rates contained in tariffs on file with the Commission, or in contracts entered into pursuant to such tariffs, unless otherwise specifically provided for in the tariff. Taking into account the level of additional recoverable gas costs that must be incurred to engage in a given transaction, the utility shall refrain from entering into any such transaction that would raise the Gas Charge(s).

e) Revenues from penalty charges or imbalance charges, which the Commission has previously approved to prevent unauthorized actions of customers, shall offset gas costs.

Issued November 30, 1995

Issued by Philip Barnhard IV

316 Market Street, Mt Carmel, IL 62863

Effective January 1, 1996

President

Applies to Communities set forth in title sheet

RULES REGULATIONS AND CONDITIONS OF SERVICE

RIDER A ctd GAS CHARGE

Section C Recoverable Gas Costs ctd

f) Revenues from "cash-out" schedules, which the commission has previously approved for transportation customers' monthly imbalances, shall offset gas costs. Under such schedules, the company can charge customers for gas used in excess of the amount contracted for, or can refund to customers the avoided cost of gas not taken. Refunds by the utility pursuant to any such "cash-out" schedule shall be treated as gas costs recoverable under this Section.

Section D Adjustments to Gas Costs

a) The Adjustment Factor (Factor A) shall be treated as an addition to or an offset against actual gas costs. This Adjustment Factor shall include the total of the following items:

- 1) refunds, directly billed pipeline surcharges, unamortized balances of adjustments in effect as of the Company's implementation date, and other separately designated adjustments;
- 2) the cumulative difference between actual recoverable gas costs and purchased gas adjustments ("PGA") recoveries for months preceding the filing month; and
- 3) the unamortized portion of any Adjustment Factor(s) included in prior determinations of the Gas Charge(s).

b) If the Company determines the need to amortize the Adjustment Factor over a period longer than the base period, this Adjustment Factor shall be amortized over a period not to exceed 12 months. The Company shall, in the monthly filing in which Factor A is first amortized, include an amortization schedule showing the Adjustment Factor amount to be included in the base period. The associated carrying charge established by the commission under 83 Ill Adm Code 280.70 (e) (1) and in effect when the Adjustment Factor is first amortized shall be applied to each month's unamortized balance and included within Factor A.

Section E Determination of Gas Charge(s)

- a) Each month the Company shall determine the Gas Charge(s) to be placed into effect for service billed during the effective month.

Issued November 30, 1995

Issued by Philip Barnhard IV

316 Market Street, Mt Carmel, IL 62863

Effective January 1, 1996

President

Applies to Communities set forth in title sheet

RULES REGULATIONS AND CONDITIONS OF SERVICE

RIDER A ctd GAS CHARGE

Section E Determination of Gas Charge(s) ctd

b) The Gas Charge(s) shall be determined in accordance with the following formula:

$$GC = \left(\frac{G \pm A \pm O}{T} \right) \times 100$$

where:

GC = The Gas Charge(s) in cents per therm rounded to the nearest 0.01¢; any fraction of 0.01¢ shall be dropped if less than 0.005¢ or, if 0.005¢ or more, shall be rounded up to the next full 0.01¢. The Company may establish separate Gas Charges for each type of gas cost.

G = The sum of the estimated recoverable gas costs associated with the base period, as prescribed in Section C. If separate Gas Charges are established, only costs related to the specific Gas Charge shall be included.

A = An amount representing the total adjustments to gas costs, as prescribed in Section D. If Company has elected to amortize the total adjustments to gas costs, Factor A shall include the amount applicable to the base period.

O = An amount representing the additional over- or under-recovery for a reconciliation year ordered by the Commission to be refunded or collected, including interest charged at the rate established by the Commission under 83 Ill Adm Code 280.70(e)(1) from the end of the reconciliation year to the order date in the reconciliation proceeding. If the Commission determines it is necessary to amortize the additional over-or under-recovery, additional interest shall be charged in the same manner as that prescribed in Section D (b).

T = The estimated applicable therms of gas associated with service to be billed during the base period.

Applies to Communities set forth in title sheet

RULES REGULATIONS AND CONDITIONS OF SERVICE

RIDER A ctd GAS CHARGE

Section F Annual Reconciliation

a) In conjunction with a docketed reconciliation proceeding, the Company shall file with the Commission an annual reconciliation statement, which shall be certified by the Company's independent public accountants and verified by an officer of the utility. This statement shall show the difference between the following:

- 1) the costs recoverable through the Gas Charge(s) during the reconciliation year, as adjusted by Factor A and Factor O, and
- 2) the revenues arising through the application of the Gas Charge(s) to applicable therms during the reconciliation year.

b) If, after hearing, the Commission finds that Company has not shown all costs to be prudently incurred or has made errors in its reconciliation statement for such reconciliation year, the difference determined by the Commission shall be refunded or recovered, as appropriate, under the Ordered Reconciliation Factor (Factor O), along with any interest or other carrying charge authorized by the Commission.

Issued November 30, 1995

Issued by Philip Barnhard IV

316 Market Street, Mt Carmel, IL 62863

Effective January 1, 1996

President

G-2

MT CARMEL PUBLIC UTILITY CO - DOCKET NO 01-0704

PGA Reconciliation - Commodity Gas Charge
for the year ended December 31, 2001

Line No

1	Unamortized Balance at Dec 31, 2000	232,712.55
2	Factor A Adjustments Amortized to Schedule I at 12/31/00 per 2000 Reconciliation	292,763.87
3	Factor O Collected/(Refunded) During 2001	0.00
4	Balance to be Collected/(Refunded) During 2001 from prior periods (sum of lines 1-3)	<hr/> 525,476.42
5	2001 Gas Costs	2,349,119.66
6	2001 PGA Revenues	-2,593,107.06
7	Pipeline Surcharges/(Refunds)	0.00
8	Other Adjustments	0.00
9	Interest	1,683.38
10	2001 (Over)/Under Recovery (sum of lines 5-9)	<hr/> -242,304.02
11	(Over)/Under Recovery Balance at 12/31/01 (line 4 + line 10)	283,172.40
12	Factor A Adjustments Amortized to Schedule I at 12/31/00	275,663.94
13	Unamortized Balance at Dec 31, 2001 (per Filing truing up actuals for December 2001)	0.00
14	Requested Factor O (line 11 - line 12 - line 13)	7,508.46

MT CARMEL PUBLIC UTILITY CO - DOCKET NO 01-0704

PGA Reconciliation - Non-Commodity Gas Charge
for the year ended December 31, 2001

Line No

1	Unamortized Balance at Dec 31, 2000	0.00
2	Factor A Adjustments Amortized to Schedule I at 12/31/00 per 2000 Reconciliation	12,844.17
3	Factor O Collected/(Refunded) During 2001	0.00
4	Balance to be Collected/(Refunded) During 2001 from prior periods (sum of lines 1-3)	<hr/> 12,844.17
5	2001 Gas Costs	207,481.95
6	2001 PGA Revenues	-179,744.55
7	Pipeline Surcharges/(Refunds)	0.00
8	Other Adjustments	0.00
9	Interest	74.19
10	2001 (Over)/Under Recovery (sum of lines 5-9)	<hr/> 27,811.59
11	(Over)/Under Recovery Balance at 12/31/01 (line 4 + line 10)	40,655.76
12	Factor A Adjustments Amortized to Schedule I at 12/31/00	43,656.81
13	Unamortized Balance at Dec 31, 2001 (per Filing truing up actuals for December 2001)	0.00
14	Requested Factor O (line 11 - line 12 - line 13)	-3,001.05

MT CARMEL PUBLIC UTILITY CO - DOCKET NO 01-0704

PGA Reconciliation - Combined Gas Charge
for the year ended December 31, 2001

Line No

1	Unamortized Balance at Dec 31, 2000	232,712.55
2	Factor A Adjustments Amortized to Schedule I at 12/31/00 per 2000 Reconciliation	305,608.04
3	Factor O Collected/(Refunded) During 2001	0.00
4	Balance to be Collected/(Refunded) During 2001 from prior periods (sum of lines 1-3)	<hr/> 538,320.59
5	2001 Gas Costs	2,556,601.61
6	2001 PGA Revenues	-2,772,851.61
7	Pipeline Surcharges/(Refunds)	0.00
8	Other Adjustments	0.00
9	Interest	1,757.57
10	2001 (Over)/Under Recovery (sum of lines 5-9)	<hr/> -214,492.43
11	(Over)/Under Recovery Balance at 12/31/01 (line 4 + line 10)	323,828.16
12	Factor A Adjustments Amortized to Schedule I at 12/31/00	319,320.75
13	Unamortized Balance at Dec 31, 2001 (per Filing truing up actuals for December 2001)	0.00
14	Requested Factor O (line 11 - line 12 - line 13)	4,507.41



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Mt. Carmel Public Utility Co.:

We have audited the accompanying reconciliation of revenue from gas charges with cost of gas (the "Reconciliation") of Mt. Carmel Public Utility Co. (the "Company") for the year ended December 31, 2001. This Reconciliation is the responsibility of the Company's management. Our responsibility is to express an opinion on this Reconciliation based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Reconciliation is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Reconciliation. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Reconciliation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Reconciliation was prepared to present the over (under) recovery of gas costs for the purpose of complying with the rules and regulations of the Illinois Commerce Commission and is not intended to be a complete presentation of the Company's gas revenues and costs.

In our opinion, such Reconciliation presents fairly, in all material respects, the revenue from gas charges with cost of gas of the Company for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

March 8, 2002

MT. CARMEL PUBLIC UTILITY CO.

RECONCILIATION OF REVENUE FROM GAS CHARGES WITH COST OF GAS YEAR ENDED DECEMBER 31, 2001

	Commodity Charge	Non-Commodity Charge	Total
Revenue recovered	<u>\$ 2,593,107</u>	<u>\$ 179,745</u>	<u>\$ 2,772,852</u>
Cost of gas purchased from Texas Eastern Transmission Corporation	(126,138)	(194,216)	(320,354)
Cost of gas purchased from Woodward Marketing, Inc.	(2,216,301)		(2,216,301)
Cost of pipeline charges from City of Grayville	(24,438)		(24,438)
Cost of propane charges	(4,733)		(4,733)
Cost of gas used by the Company and franchise	8,598	626	9,224
Interest (ranging from 2% to 6%)	<u>(1,684)</u>	<u>(74)</u>	<u>(1,758)</u>
Cost recoverable through gas charges	<u>(2,364,696)</u>	<u>(193,664)</u>	<u>(2,558,360)</u>
TOTAL OVER (UNDER) RECOVERY	<u>\$ 228,411</u>	<u>\$ (13,919)</u>	<u>\$ 214,492</u>